Geo-political Standpoint

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Iraq and Iran; Back to the Future

The Bottom-line:

It is hard to separate the P5+1 negotiations and the potential collapse of Iraq. Whilst no single State has come out and said it will accept ISIS/L’s “caliphate”, few have stepped up and said it should be destroyed, and how. Expediency is rampant. **We see zero chance of a deal regarding Iran’s nuclear programme by 20th July,** largely because no one wants a deal - just like Arafat never wanted peace with Israel.

It serves everyone to kick Iranian nuclear programme talks “into the long grass”. The US and others have surely seen Iran’s fears regarding Iraq, and considered the first real chance in 40 years to squeeze Tehran. If Iraq ‘balkanises’, the biggest loser is Iran, which has invested enormously in Maliki’s leadership. However, with ISIS’ full intentions unknown, Saudi, Jordan and other Arab States are now fearful of “terminal blow-back”. Whilst Israel and Turkey are supporting a Kurdish separation, this cannot happen unless major powers sign up, and so this outcome isn’t a given.

**One major factor that could cause hands to be forced is water; in Syria and Iraq, ISIS and other separatists are leaving population centres, power and energy production industries with no water, and this could cause a ‘civil collapse’ in less than three months. We expect the coming three months to be critical.**

An independent overview & analysis of the international geo-political scene
1980 Seems a long time ago:

Fearful of a new, religiously based Shia leadership to the East emerging in 1979, Iraq saw Iran's post-Revolutionary chaos as its chance to cowl a regional peer. It didn't. The longest State-State war of the 20th Century left both States intact, but Iran united. Fast forward. Western agency (along with Saudi/Qatari) meddling gave Syria its Arab Spring, and an opportunity to be rid of Assad, to be replaced by Sunni friends. Assad is now untouchable in West Syria, but is being kept on a leash regarding the borders with Iraq. ISIS is Al Qaeda on steroids, and Frankenstein is now on everyone's doorstep.

**ISIS will only be defeated by a united Iraq. We cannot see any outcome where Maliki survives.** He is the touch paper around which ISIS has thrived. Backroom discussions between Iran and Saudi on a mutually acceptable replacement continue - these are key to what happens next in Iraq, not what the White House says and does.

P5+1 - chest beating crescendos:

As expected, US Congress is being browbeaten by the Israel lobby into announcing (via Senator Menendez and others) conditions for approving any Obama deal which far exceed what Rouhani can deliver. Iranian domestic rhetoric is equally restrictive. **At least President Obama knows now what the hurdles are (both at home, and in Iran), to getting a deal.** As such, he'll delay, and continue to work on a long-term obfuscation. In the mean-time, Iran has more at risk from ISIS success than the US. We expect the US to do the bare minimum to help Maliki, but will also restrain KRG (kurds) from moving to full Statehood, much to the chagrin of the KRG and Israel. **Either way, expect a minimum 6-month delay to be announced in Geneva.**
Water, the unspoken nightmare:

The Euphrates is one of the two key waterways in the region, and ISIS has control of much of it in Syria and Iraq. It has systematically destroyed pumps, irrigation and sewage works. The humanitarian and infrastructure impact is only just beginning to be felt. We suspect that Special Forces from one protagonist or another will be used to take control of key points in due course. Few players want an outcome right now, but even fewer want millions of Iraqi and Syrian drought refugees coming over their border.

Oil – little impact, for now:

Although fighting around North Iraq refineries is an issue, almost all Iraqi oil at present is being produced and exported in the far South. However, hopes of increased exports have been dashed, making world oil prices susceptible to other dislocations. This is another reason why President Obama wants the P5+1 talks to continue - he wants the effects of any Israeli attack on Iran to be delayed, and any resultant pain from higher oil prices on the weak US economic recovery to be put off. Israel, with plentiful gas from its new fields, is now impervious to global oil price movements, and has optionality it didn’t possess three years ago.

Gaza and West Bank – no change:

The appointment of Israel’s new President is a clear sign that Israel will continue to annex the West Bank and work toward a One-State solution, ignoring the bleating from Europe and other gentiles. As such, it will remain uncompromising on Hamas. The Palestinians will remain disjointed and suppressed.

What next?

Once 20 July has passed, we look to new government in Baghdad - this is the key to the region. Watch this space!
Biography – John Longhurst

John spent 28 years as an investment analyst and fund manager, with a focus on global defence/aerospace industries, interactive media and industrial as well as broader cyber and geopolitical areas. Starting with James Capel in 1986, John attained No. 1 rankings in competitive polls from 1988 until 1996, when he joined Capital Group Companies of Los Angeles, one of the world’s leading fund management companies, managing more than $1tn of client assets.

After becoming a senior Shareholder there, he moved to PIMCO in 2011, as Head of Emerging Markets equity research. PIMCO is one of the world’s top-5 global fund managers by assets, managing more than $2tn of client assets.

John was voted by Defence News as one of the 100 most influential people in the US Defence Establishment and has been actively involved in start-up companies over the past decade.